

Consumer Alert

Providing consumers with knowledge to make informed choices and decisions.



Don't pay to borrow your own money: The risks and costs of Tax Refund Anticipation Loans

How would you like to pay a super-high price to borrow money that already belongs to you? Sounds ridiculous, right? But that's pretty much what happens to many folks at tax time in the crazy world of refund anticipation loans (RALs).

You may be tempted by tax-time advertisements for "Fast Cash Refunds," "Express Money," or "Instant Refunds." These ads will offer to get you your refund in just a day or two, or even on the spot. Beware! Many of these "fast refunds" are really LOANS, refund anticipation loans, that are based on your own tax refund money.

When you get a RAL, you're

borrowing against your own tax refund money and it's not cheap. Loan fees typically range from \$30 to \$90, which translates into an Annual Percentage Rates of about 60% to over 700%. If you paid those rates on all your borrowing you'd probably go broke!

RAL fees, combined with tax preparation, electronic filing, and other fees, can end up eating away a big chunk of your refund.

In addition to their high costs, RALs can be risky. Since a RAL is a loan from a bank in partnership with a tax preparer, it must be repaid even if the IRS denies or

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SCDCA-sponsored Shred Day a hit with consumers

The South Carolina Department of Consumer Affairs (SCDCA) sponsored its 2nd Annual Shred Day and "After Hours: Identity Theft" on March 20, 2007 in an effort to educate consumers and businesses on the importance of taking precautions to avoid identity theft.

With tax season in full swing, SCDCA encourages consumers and businesses to keep careful record of tax forms and other papers with sensitive personal and financial information. Consumers and businesses should dispose of outdated or

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Wait! Before buying a new car consider if you can afford it

Aww, there is nothing quite like the smell of a new car, but for some consumers that new car smell may come at too high a price.

Americans are spending more than ever on their vehicles, an estimated \$8,000 a year on average, and for some consumers that may be too much to keep in the driveway.

The problem with vehicle costs is that, unlike other areas, they cannot be easily reduced. For example you can lower utility costs by turning

down the heat or cutting off the lights, lower the telephone bill by using less long distance, but you can't cut back on the car payment.

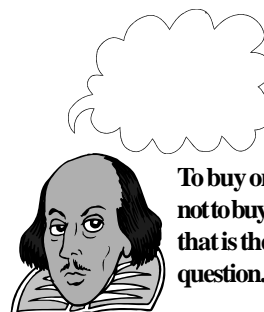
The depreciation of vehicles is so rapid that once you've agreed to the purchase it's very hard to break even by quickly reselling your vehicle. Other vehicle costs are unavoidable, such as insurance, so reducing your driving doesn't bring relief either. Operating costs are also high with the rise in gas prices and other regular

maintenance.

Signs you spent too much for your vehicle:

Transportation spending grew more than 12 percent from 1999 to 2005

while median income didn't budge. Once adjusted for inflation that's a 8.3 percent growth from 1995 to 2005



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The Help Desk: *Hiring a reputable credit counselor*

Reputable credit counseling organizations advise you on managing your money and debts, help you develop a budget, and usually offer free educational materials and workshops.

Their counselors are certified and trained in the areas of consumer credit, money and debt management, and budgeting.

Counselors discuss your entire financial situation with you and help you develop a personalized plan to solve your money problems. An initial counseling session lasts an hour with an offer of follow-up sessions.

A reputable credit counseling agency should send you free information about itself and the services it provides without requiring you to provide any details about your situation.

If a firm doesn't do that, consider it a red flag and go elsewhere for help.

Once you've developed a list of potential counseling agencies, check them out with your state Attorney General, local consumer protection agency, and Better Business Bureau. They can tell you if consumers have filed complaints about them.

The United States Trustee Program also keeps a list of credit counseling agencies that have been approved to provide pre-bankruptcy counseling.

However, even if there are no complaints about them, it's not a guarantee that they're legitimate. It is important that you ask and

establish answers to the following questions before choosing a credit counseling organization:

What services do you offer?

Look for an organization that offers a range of services, including budget counseling, savings and debt management. Avoid places that push debt management plans as your only option before taking an appropriate amount of time to review your situation.

Do you offer information or educational materials for free?

Look for places that offer free services and information.

What are your fees?

Be sure to get a specific price quote in writing.

What if I can't afford it?

If they won't help you, because you can't afford it, go somewhere else.

How are your employees compensated?

If they work on a commission, go elsewhere for help.

Are you licensed to offer your services in my state? What are the qualifications of your counselors?

Look for an organization whose counselors are trained by a non-affiliated party.

Will I have a formal written agreement or contract with you?

Don't sign anything without reading it first. Make sure all verbal promises are in writing.

What assurances do I have that my information will be kept confidential and safe?

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with those in the lowest and highest income brackets spending the most.

More than 80 percent of car loans are for terms longer than four years.

One in four consumers have rolled over debt from a previous vehicle onto their new vehicle. This is a very, very bad idea since the vehicle's rapid depreciation leaves the consumer with negative equity (owing more than it's worth). This leads to higher interest rates on the new vehicle because the loan can't be secured by the car alone.

This is known as being "upside down" and can lead to big trouble if the vehicle is totaled or stolen.

Before you buy a new car consider the following financial advice:

Consider your driving habits before purchasing a vehicle. Do you really need a two-ton pickup truck or sports car or would your driving needs be satisfied by a smaller, compact car?

Avoid high-profit, low-value extras such as credit insurance, extended warranties, auto club memberships, rust proofing, and upholstery finishes, which only further tax your wallet.

Lower the number of years on your auto loan so as to avoid negative equity.

Consider a used or certified pre-owned car. With the advancements in auto manufacturing many vehicles are lasting much longer, some 200,000 and 300,000 miles, making used cars a safer option than in previous years.

Drive out of your loan, or in other words drive it until the wheels fall off. Driving your car after it has been paid for will save you a car payment each month.

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delays your refund or if your refund is smaller than expected. If you don't pay back the RAL, the lender can take actions to hurt your credit rating and may send your account to a debt collector. In addition, when you apply for a RAL, you are giving the lender the right to grab your tax refund to pay for old tax loan debts that the lender claims you owe.

All to get your tax refund just a few days earlier than you can for free from the IRS. Essentially you're lining someone else's pockets with YOUR hard-earned money. Worse, RALs are often marketed to people who need money the most – low- and moderate-income workers who receive the Earned Income Tax Credit.

Ways to avoid RALs and save at tax time:

- E-File with Direct Deposit – File your tax return electronically (E-File) to speed up your refund. Tell the IRS to deposit the refund directly into your bank account. You provide your account number right on your tax return. You can get a refund in about 10 days this way – without paying one cent extra.
- Volunteer Income Tax Assistance (VITA) – VITA sites provide free tax preparation to low- and moderate-income taxpayers. These sites are sponsored by the IRS and can be found in libraries, community centers, and other locations during tax time. If you have Internet access, you may be able to get free tax preparation and

electronic filing at www.icanefile.org.

- Wait just a bit longer – Do you really have to get cash from your tax refund today? Can you wait a few weeks to save almost \$100? If you have an urgent bill to pay, ask for more time until the tax refund check comes from the IRS. Don't take on a new expensive debt to pay an old bill.

- Avoid check cashers – Check cashers charge an extra fee to cash RAL and tax refund checks. Some check cashers charge up to 7% to cash a RAL check – the average is about 3%. If you receive a \$2,000 refund it would cost you an average of \$60 to cash the RAL check on top of the RAL and tax preparation fees. A smarter move is to use a bank account.

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unnecessary paper trash in a safe and timely manner. Global Paper Shredding, Inc. and Shred 360 were on hand to provide shredding services free of charge for consumers and businesses.

SCDCA staff were also on-site to answer consumers' questions about identity theft.

An estimated 20,000 pounds of sensitive paper materials were shredded for consumers and businesses.

SCDCA also hosted an "After Hours" session addressing identity theft and what consumers can do to protect themselves.

Shred Day is an annual event held at the Department and plans for next year's Shred Day are already in the works.

For more information on Shred Day, contact the Public Information Division at 803-734-4296 or toll free at 1-800-922-1594, or visit us online at www.sconsumer.gov.

Got Questions??? Ask Consumer Affairs

Think you have been a victim of a scam or just need general information about fraud protection?

Then log on to Ask Consumer Affairs, an interactive forum that provides you with great consumer information. Visit the South Carolina Department of Consumer Affairs website at www.sconsumer.gov and click on LIVE HELP.

A communication specialist is there to assist you with any questions you may have Monday through Friday from 8:30 a.m. until 5:00 p.m. Or you can always reach us by phone at 803.734.4200 or toll free in S.C. at 1.800.922.1594.

The SCDCA is located at 3600 Forest Drive, on the corner of Forest Drive and Beltline Blvd.

S.C. Department of Consumer Affairs Mission and Values Statement:

To protect consumers from inequities in the marketplace through advocacy, mediation, enforcement and education.

The Department strives to be a **CREDIT** to our State by holding the following values as essential in our relationships and decision-making:

Competence **R**espect **E**quality
Dedication **I**ntegrity **T**imeliness

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About the South Carolina Department of Consumer Affairs:
Established by the Consumer Protection Code in 1974, the South Carolina Department of Consumer Affairs represents the interest of South Carolina consumers. Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement, and education. For more information on the SCDCA, visit www.sconsumer.gov.